

***L* LINES MURPHY & COMPANY, P.L.C.**
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NEWS RELEASE

FOR RELEASE: January 18, 2010

Lines Murphy & Company, P.L.C., of Osage today released an audit report on the Cedar River Recreation & Fine Arts Complex.

The Complex had total receipts of \$5,832,208 for the year ended June 30, 2009, a 3.5 percent decrease from 2008. The receipts included pledges of \$5,632,852 and interest on investments of \$161,123.

Disbursements for the year totaled \$7,726,891, a 161 percent increase from the prior year. The sharp increase was due to the majority of construction occurring during the fiscal year June 30, 2009. Disbursements included \$7,539,494 for Capital Projects and \$187,397 for operating.

A copy of the report is available for review in the Complex Director's office, in the Office of Auditor of State and on the Auditor of State's web site at: <http://auditor.iowa.gov/reports/reports.htm>.

CEDAR RIVER RECREATION & FINE ARTS COMPLEX

**INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENT AND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2009

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditors' Report	2-3
Financial Statements:	<u>Exhibit</u>
Statements of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets	A 4
Notes to Financial Statement	5-7
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	8-9
Schedule of Findings	10-14

Cedar River Recreation & Fine Arts Complex

Officials

For the year ending June 30, 2009

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Steven Cooper	President	City of Osage
Joyce Ruehlow	Vice President	Osage Education Foundation
Konnie Snider	Secretary	Osage Community School District
Harlan Bremer	Treasurer	Osage Municipal Utilities
Ellen Elsbury	Ex-officio	Mitchell County Historical Society
Mark Taets	Ex-officio	Mitchell County Agricultural Society
Tom Bucheit	At Large	Within Osage City Limits
Beth Bellairs	At Large	Outside Osage City Limits
Karl Theis	At Large	Outside Osage City Limits
Angie Huffman	Director	

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Independent Auditors' Report

To the Members of the
Cedar River Recreation & Fine Arts Complex

We have audited the accompanying financial statements of Cedar River Recreation & Fine Arts Complex (CRR&FAC) as of and for the year ended June 30, 2009. These financial statements are the responsibility of the Complex's management. Our responsibility is to express an opinion on the financial statements, based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the CRR&FAC as of and for the year ended June 30, 2009 and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2009 on our consideration of the CRR&FAC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Complex has not presented Management's Discussion and Analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Lines Murphy & Company P.L.C.
Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
October 28, 2009

Cedar River Recreation & Fine Arts Complex

Statements of Cash Receipts, Disbursements and
Changes in Cash Basis Net Assets

As of and for the year ended June 30, 2009

	2009
Operating Receipts:	
Pledges	\$ 5,632,852
Rent	16,875
Sales	5,431
Miscellaneous	6,927
Total operating receipts	<u>\$ 5,662,085</u>
Operating disbursements:	
Capital Projects	\$ 7,539,494
Salaries and Benefits	73,185
Utilities	21,306
Activities	8,035
Marketing	9,407
Supplies	10,637
Dues	612
Insurance	34,739
Training	5,073
Professional fees	12,402
Cost of goods for resale	1,541
Building & Equipment expense	10,432
Miscellaneous Exp.	28
Total operating disbursements	<u>\$ 7,726,891</u>
Excess of operating receipts over operating disbursements	<u>\$ (2,064,806)</u>
Non-operating receipts (disbursements):	
Interest on investments	\$ 161,123
Net non-operating receipts (disbursements)	<u>\$ 161,123</u>
Net change in cash basis net assets	\$ (1,903,683)
Cash basis net assets beginning of year	4,782,246
Cash basis net assets end of year	<u>\$ 2,878,563</u>
Cash Basis Net Assets	
Restricted:	
Construction	\$ 2,869,206
Unrestricted	9,357
Total cash basis net assets	<u>\$ 2,878,563</u>

See notes to financial statements.

Cedar River Recreation & Fine Arts Complex

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

The Cedar River Recreation & Fine Arts Complex was formed in 2006 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Complex is to build, own, and manage the Cedar River Recreation and Fine Arts Complex in Osage, Mitchell County, Iowa. The Cedar River Recreation and Fine Arts Complex began building in the fiscal year ending June 30, 2007. The operations portion of the Complex started in the fiscal year ending June 30, 2009.

The governing body of the Complex includes members, each with one vote, comprised of one person nominated by the Mayor of the City of Osage and approved by the Osage City Council, one person selected by the Osage Community School District Board of Directors, one person selected by the Mitchell County Agricultural Society, one person selected by the Osage Education Foundation, one person selected by the Mitchell County Historical Society, one person selected by the Osage Municipal Utilities Board of Trustees, one person selected at large who resides in Osage, and two persons selected at large who reside in Mitchell County, but outside the corporate limits of Osage.

A. Reporting Entity

For financial reporting purposes, the Cedar River Recreation & Fine Arts Complex has included all funds, organizations, agencies, boards, commissions, and authorities. The Complex has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Complex are such that exclusion would cause the Complex's financial statement to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Complex to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Complex. The Complex has no component units, which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the Complex are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

The Cedar River Recreation & Fine Arts Complex maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Complex is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present the financial position and results of operations of the Complex in accordance with U.S. generally accepted accounting principles.

D. Net Assets

The following accounting policy is followed in preparing the Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets.

Restricted Cash Basis Net Assets –Funds set aside for the payment of the construction of the Cedar River Recreation & Fine Arts Complex.

(2) Cash and Investments

The Complex's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Complex is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk –Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Complex.

(3) Pension and Retirement Benefits

The Complex has contacted Iowa Public Employees Retirement System (IPERS) and has been informed that at this time they do not qualify for the program. The Complex does not have any other liability for Pension and Retirement Benefits. Complex employees do not earn or accumulate benefits for payment upon retirement.

(4) Compensated Absences

The Complex does not have a liability for compensated absences. Complex employees do not earn or accumulate vacation or sick leave hours for payment upon termination, retirement or death.

(5) Risk Management

The Complex is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Complex assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the two years ending June 30, 2009.

(6) Commitments

As of June 30, 2009, the Complex had the following commitments with respect to the following projects:

	<u>Remaining Commitment</u>	<u>Expected Date of Completion</u>
CRC	7,078,613	April - 2010

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**Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Members of the
Cedar River Recreation & Fine Arts Complex

We have audited the accompanying financial statements of the Cedar River Recreation & Fine Arts Complex (CRR&FAC) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 28, 2009. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Complex's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the CRR&FAC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CRR&FAC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the CRR&FAC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the CRR&FAC's financial statements that is more than inconsequential will not be prevented or detected by the CRR&FAC's internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the CRR&FAC's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-09, II-B-09, II-C-09, and II-E-09 are material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CRR&FAC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Complex's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Complex. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The CRR&FAC's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Complex's responses, we did not audit the CRR&FAC's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the members and customers of the CRR&FAC and other parties to whom the CRR&FAC may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the CRR&FAC during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
October 28, 2009

Cedar River Recreation & Fine Arts Complex

Schedule of Findings

Year ended June 30, 2009

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including four material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Cedar River Recreation & Fine Arts Complex

Schedule of Findings

Year ended June 30, 2009

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- II-A-09 **Segregation of Duties** – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Complex should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The Complex should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-09 **Credit Card Policy** – The Complex does not have a Credit Card Usage Policy. We noted that credit card payments are coming directly out of the bank account without any board oversight.

Recommendations – With the lack of segregation of duties, it is important that a policy be formed to outline the expenses that can and cannot be charged and reimbursed on the credit card. The policy needs to include that the employee is responsible for unauthorized charges. Further the payment for the credit card is being debited directly from the bank account, which circumvents the approval process. A policy for approving these payments needs to be established or the practice needs to be discontinued.

Response – We will adopt a Credit Card Usage Policy.

Conclusion – Response accepted.

- II-C-09 **Employee Policy Manual** – It was noted that the Complex does not have a written Employee Policy Manual.

Recommendations – The Complex should adopt an Employee Policy Manual covering:

- a.) Paid time off.
- b.) Reimbursed Expenses.
- c.) Employee Conduct.

Response – We will consider this.

Conclusion – Response accepted.

II-D-09 Certified Budget – No budget is required. However due to the large amounts of investments and cash flows, not having a budget is a control weakness.

Recommendation –The Complex should adopt and approve an annual budget.

Response –We will consider this.

Conclusion – Response accepted.

II-E-09 Invoices – Invoices were not properly cancelled to prevent reuse.

Recommendation – Checks should be prepared only from invoices, and the Complex should mark invoices “paid” to prevent duplicate payments from occurring.

Response – We will do so.

Conclusion – Response accepted.

II-F-09 Computer Security – We noted the following weakness in the computer system at the Cedar River Recreation & Fine Arts Complex’s location.

- a.) Backups not maintained daily.
- b.) Backups not maintained off site.
- c.) Logins do not automatically time out when not in use.
- d.) Password changes are not required.

Recommendation – Review controls over computer systems and implement controls accordingly.

Response – We will review controls over the computer system.

Conclusion – Response accepted.

Cedar River Recreation & Fine Arts Complex

Schedule of Findings

Year ended June 30, 2009

Part III: Other Findings Related to Statutory Reporting:

III-A-09 **Official Depositories** - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Commission's investment policy were noted, except as noted in III-G-09, III-H-09 and as follows:

The Complex has not adopted a resolution naming official depositories and has not set up depository agreements.

Recommendation - A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted in accordance with Chapter 12C of the Code of Iowa, and depository agreements should be set up with the financial institutions.

Response - We will do so.

Conclusion - Response accepted.

III-B-09 **Questionable Disbursements** - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

III-C-09 **Travel Expense** - No disbursements of Complex money for travel expenses of spouses of Complex officials or employees were noted.

III-D-09 **Business Transactions** - Business transactions between the Complex and Complex officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Harlan Bremer, Board Member, Son is owner of Larson's Hardware Hank & Rental	Tent rental, Maintenance And Miscellaneous Supplies	\$1,435

In accordance with Chapter 362.5(10) of the Code of Iowa, the amount does not appear to represent a conflict of interest since the amount is less than \$1,500.

Recommendation - The Complex should consult legal counsel to determine the disposition of this matter.

Response - The Complex will contact legal counsel.

Conclusion - Response accepted.

III-E-09 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-09 Board Minutes – It was noted that some transactions were found that we believe should have been approved in the Board minutes but were not. Further minutes did not include the total disbursements by payee, amount, and purpose, a summary of receipts and the list of claims allowed did not include the reason for making the claim as required by Chapter 372.3 of the Code of Iowa during the fiscal periods ending June 30, 2009.

Recommendation – The Complex should publish minutes as required by the Code of Iowa.

Response – We will do so.

Conclusion – Response accepted.

III-G-09 Deposits and Investments – The Complex has not adopted a written investment policy in compliance with the provisions of Chapter 12B.10B of the Code of Iowa. Although it is noted that the Complex does not hold any investments other than certificates of deposit, a written investment policy is still required.

Recommendation – The Complex should adopt a written investment policy.

Response – We will do so.

Conclusion – Response accepted.

III-H-09 Minimum Statutory Interest Rate – For the Complex, the interest rate on one certificate of deposit did not meet the minimum rate of interest set by the State Rate Setting Committee for year ending June 30, 2009.

Recommendation – Public funds certificates of deposit shall be invested at a rate of interest, which conforms with current rates for public funds on the date of investment. The Complex should seek reimbursement of the additional interest due on the certificates of deposit. In addition, management should be aware of the current allowable rates to ensure the minimum allowable rate is received for all investments.

Response – Management will work with their banks to obtain the minimum rate of interest.

Conclusion – Response accepted.